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Sugar

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Report Highlights:

Due to poor farming practices, antiquated government mills and despite an increase in the floor price for sugar, Indonesia's sugar production is forecast to remain stagnant at 1.75 MMT in MY03 and 1.77 MMT in MY04. Increases in utility costs and soaring retail prices are expected to keep the demand for sugar flat, around 3.4 MMT in MY03 and 3.5 MMT in MY04. Weak local sugar production has led to increased imports estimated to 1.6 MMT. Thirty percent of sugar, which is imported is illegal. The GOI's sugar policy remains in discer.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I: SITUATION AND OUTLOOK

General Summary

Based on GOI and industry sources, Post estimates cane production at 25.6 MMT in MY04 (May 03-April 04), slightly higher compared to 25.5 MMT in MY03. The high costs associated with production and living cost, coupled with a low rate of return from planting cane sugar, have discouraged farmers from expanding their cane planting area. In addition, lack of proper farming practices have hampered fast improvement in cane yields, which are estimated to increase only slightly from approximately 72.9 MT/ha in MY03 and 73.1 MT/ha MY04.

Acceptable weather conditions during the growing season are expected to increase sugar content (sugar rendemen) of cane from 6.87 percent in MY03 to 6.91 percent in MY04. Modern equipment, distinguished farming and milling management contributed by the private sugar mills lead to a slight increase in sugar yields, which are expected to reach 5.01 MT/ha in MY03 and 5.05 MT/ha in MY04. This will ultimately result in increased production of centrifugal sugar.

Sluggish development by the food/beverage industries, high retail prices for sugar and low purchasing power keep sugar consumption at an invariable level. As a result, Post estimates consumption for centrifugal sugar at 3.4 MMT in MY03 and 3.5 MMT in MY04. A short domestic supply from local production force sizable imports to take place each year. Centrifugal sugar imports are expected to remain at 1.6 MMT in MY03 and MY04. This total includes illegal imports—due to under invoicing, falsification of import documents and smuggling, which make up nearly one-third (500,000 MT) of total imports. Sugar imports are regulated by the Minister of Industry and Trade Decree No. 643/2002, which allow four state enterprises to import white sugar at certain conditions that include during off milling seasons and when the retail price for sugar is higher than Rp. 3,100/kg. Sugarcane is normally processed between the months of May and July.

Food/beverage and pharmaceutical manufacturers may also import ~~enough white sugar to meet the needs of processing activities.~~ Despite forceful protesting from the Indonesian farmers association (HKTI-Himpunan Kerukunan Tani Indonesia) to increase the import duty on white sugar, import duties for sugar remain at Rp. 550/kg for raw sugar and Rp. 700/kg for white sugar.

Sugar Cane for Centrifugal

PSD Table						
Country:	Indonesia					
Commodity:	Sugar Cane Centrifugal					
		2002		2003		2004
	Old	New	Old	New	Old	New
Market Year Begin		05/2001		05/2002		05/2003
Area Planted	380	380	380	375	0	375
Area Harvested	340	345	335	350	0	350
Production	23400	25185	24000	25530	0	25600
TOTAL SUPPLY	23400	25185	24000	25530	0	25600
Utilization for Sugar	23500	25185	23500	25530	0	25600
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	23400	25185	24000	25530	0	25600

Note: Unit in 1,000 Ha. and 1,000 MT.

Data in the "Old" column reflect FAS/Washington data. For Post's previous PS&D refer to report ID2034.

Centrifugal Sugar

PSD Table						
Country:	Indonesia				Unit: 1,000 MT	
Commodity:	Centrifugal Sugar					
		2002		2003		2004
	Old	New	Old	New	Old	New
Market Year Begin		05/2001		05/2002		05/2003
Beginning Stocks	1415	1415	1215	1385	1115	1340
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1700	1725	1800	1755	0	1770
TOTAL Sugar Production	1700	1725	1800	1755	0	1770
Raw Imports	1100	1300	1100	1000	0	1000
Refined Imp.(Raw Val)	400	300	500	600	0	600
TOTAL Imports	1500	1600	1600	1600	0	1600
TOTAL SUPPLY	4615	4740	4615	4740	1115	4710
Raw Exports	0	5	0	0	0	0
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	0	5	0	0	0	0
Human Dom. Consumption	3400	3350	3500	3400	0	3450
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	3400	3350	3500	3400	0	3450
Ending Stocks	1215	1385	1115	1340	0	1260
TOTAL DISTRIBUTION	4615	4740	4615	4740	0	4710

Note: Data in the "Old" column reflect FAS/Washington data. For Post's previous PS&D refer to report ID2034.

Production

Approximately 50 percent of all sugar cane planted in Indonesia is managed by small farmers. State owned mills control less than 20 percent while private sugar mills manage the balance. Private mills manage their own cane plantations and have modern facilities while state owned mills use old milling equipment and obtain raw materials from a large number of small farmers. During the milling season (May-November), sugar mills compete against each other to get an adequate supply of cane from farmers. Sugar mills with the best facilities are usually able to procure larger supplies of cane, as they offer higher cane extraction rates and timely transportation. This practice has caused some sugar mills to experience shortages of cane, which already forced 15 companies to close their facilities. Currently there are 58 sugar mills (state owned and private) in operation nationwide. Forty six of those mills are located on the island of Java and the remaining twelve mills operate on other islands. Of that number, 6 sugar mills are managed by private companies (4 mills are located in Lampung and 2 are in Java) and have better performance compared to state sugar

mills.

Multiple regrowth planting practices (ratoon) and unavailability of good/suitable seedlings have resulted in low cane yields. Limited availability of credit for farming and high commercial interest rates (approximately 22 percent) also curbs efforts for improving cane yields and quality more rapidly. The GOI's policy on the sugar floor price (Rp. 3,100/kg) is supposed to motivate farmers interest in planting more cane and increasing the cane area in Java (see policy section), this remains to be seen. Even with slow advancements in farm management practices by private sugar mills, Post estimates for cane production remain rather flat at 25.5 MMT in MY03, with a slight increase to 25.6 MMT in MY04.

Sugar extraction rates are also expected to increase from 6.87 percent in MY03 to 6.91 percent in MY04 as weather is expected to be favorable during the growing season and milling process (particularly of private companies) improve somewhat to be more efficient. Higher sugar extraction rates from the milling process is expected to nudge up sugar production in MY03 and MY04 to 1.75 MMT and 1.77 MMT respectively. Although progress and development in cane farming is marginal, with contribution from the private sugar companies that manage most of their plantation, post estimates cane yields to increase slightly from 72.9 MT/ha in MY03 to 73.1 MT/ha in MY04.

The Ministry of Agriculture reports that it plans to boost productivity of sugar plantations to achieve self sufficiency by 2007. The GOI's aim of self sufficiency is planned to be met by implementing "productivity-boosting" measures to improve irrigation, introduce high quality seeds and provide increase credit subsidies to sugar farmers. The "productivity-boosting" package will have an allocation of approximately \$112 million by the GOI in 2003.

Consumption

Because of increasing utility costs and higher prices for sugar, consumer purchasing power for sugar is expected to weaken. Post estimates total sugar consumption for households and industries to remain stagnant at 3.4 MMT for MY03 and MY04. The food/beverage and pharmaceutical industries require industrial sugar (refined and double refined) for their processing facilities and are eligible to import directly according to their production capacity, at around 700,000 - 900,000 MT per annum.

Prices

During the first three months of 2003, the average retail price for local (plantation white or semi-refined) sugar in Indonesia is Rp. 4299/kg (US\$ 483/MT using Rp. 8,900/US\$1 exchange rate), more than double the world market price for refined sugar (US\$ 230/MT), and US\$ 160/MT for raw sugar. Smuggled/illegal imports of sugar are sold in the market at around Rp. 2,800/kg to Rp. 2,900/kg, **below the floor price of domestically produced sugar. As of April 22, retail prices in certain areas were up between Rp. 6,000/kg - Rp. 7,000/kg, which is a huge jump over sugar being sold at Rp 4,000/kg earlier in April.** Bulog, the National Logistics Agency has started distributing government sugar stocks at Rp. 3,700/kg (in Jakarta, Central Java, East Java, and North Sumatra) and conducted market operations (in Jakarta and Surabaya), which allow a persons to buy a maximum 10 kg of sugar at Rp. 3,950/kg, in an attempt to gain control over soaring sugar prices.

Trade

The shortage in Indonesia's sugar supply has forced Indonesia to absorb significant amount of imported sugar which is estimated at approximately 1.6 MMT for MY03 and MY04, of which, nearly 500,000 MT is made up of illegal imports. In contrast, GOI official trade data shows imports in MY03 at only 1.0 MMT, however this data fails to include and account for smuggling and informal imports. Total sugar imports contain approximately 1.0 MMT of raw sugar and 600,000 MT of refined sugar. Based on the sugar marketing regulation, imported raw sugar may only be imported by appointed importers (IP-importer producers) which must be refined before it goes to the market for direct consumption. White sugar can be imported by four state enterprises producing sugar that obtain 75 percent of their milled cane from farmers, when the farm gate price of local sugar is higher than Rp. 3,100/kg. Certain industries that use sugar as a major component in their products (IT-sugar) are also eligible to import sugar (at government approved quantity, just enough to meet the requirement of its processing capacity). The GOI granted PTPN IX, PTPN X, PTPN XI, Radjawali Nusantara Indonesia (RNI), and Bulog to import 500,000 MT of sugar, in order to bring down soaring prices. The GOI is determining the quantity of imported sugar and will designate its port destination prior to the May milling season.

Import Trade Matrix

Jan-Oct 2001 and 2002

Import Trade Matrix			
Country:	Indonesia	Units:	1,000 MT
Commodity:	Sugar		
Time period:	Jan-Oct		Jan-Oct
Imports for	2001		2002
U.S.	0	U.S.	0
Others		Others	
Thailand	674	Thailand	476
India	148	Brazil	87
United Kingdom	71	India	80
Australia	33	Australia	34
Brazil	24	China	34
Singapore	21	Singapore	23
Hong Kong	19	Malaysia	22
France	17	United Kingdom	17
Belgium/Luxemburg	16	United Arab Emirates	12
Korea, Rep.	12	Korea, Rep.	11
Total for Others	1035	Total for Others	796
Others not listed	52	Others not listed	34
Grand Total	1087	Grand Total	830

Source: Central of Statistics Agency, Jakarta, Indonesia.

May -Oct 2001 and 2002

<i>Import Trade Matrix</i>			
Country:	Indonesia	Units:	1,000 MT
Commodity:	Sugar		
Time period:	May-Oct		May-Oct
Imports for	2001		2002
U.S.	0	U.S.	0
Others		Others	
Thailand	212	Thailand	207
India	102	India	47
United Kingdom	37	Australia	22
Australia	17	Malaysia	11
Brazil	13	China	10
Singapore	9	Singapore	8
Hong Kong	8	United Kingdom	7
Korea, Rep.	8	Korea, Rep.	7
France	8	Brazil	6
United Arab Emirates	7	United Arab Emirates	3
Total for Others	421	Total for Others	328
Others not listed	21	Others not listed	14
Grand Total	442	Grand Total	342

Source: Central of Statistics Agency, Jakarta, Indonesia.

According to the Ministry of Industry and Trade, the short sugar supply and increasing prices for white sugar throughout the country has led the to appointment of PTPN X, Rajawali Nusantara Indonesia (RNI) and Bulog (on behalf of PTPN X) to import 250,000 MT of white sugar (during the period of February 24 until April 30, 2003). Note, the most recent import tenders were carried out by PTPN X. PTPN X's latest transactions were carried out by the Koperasi Pertanian Nusantara (Koperta), in March, to import 50,000 MT of sugar from Brazil, at US\$ 202.98/MT; and PTPN XI, in early April, appointing Olam International Ltd. to import 50,000 MT at US\$ 224.4/MT, which should arrive and off-loaded in designated ports between May 10-15, 2003. Imports are conducted under tight agreements.

Policy

Poor performance and extremely high prices for domestic sugar, have made it difficult for Indonesia's producers to compete with imported sugar. Efforts to sustain the local sugar industry have been taken by the GOI, to include regulating the importation of sugar. A decree by the Ministry of Industry and Trade (No. 643/MPP/Kep/9/2002),

dated September 23, 2002 restricts imports of sugar (raw and refined) to only Importer Producers of sugar (IP-sugar) that would process the sugar in their facilities and may not sell it to other parties or on the market. Plantation white sugar (semi-refined) may only be imported by Registered Importers for sugar (IT-sugar), state sugar mills that use 75 percent of the cane from farmers, which can be carried out only if the farm gate price of semi-refined sugar are above Rp. 3,100/kg. IP-sugar is granted by the Ministry of Industry and Trade for one year while IT-sugar is valid for a three year period.

The Ministry of Agriculture Decree No. 03/Kpts/KB.410/1/2003, dated January 5, 2003, stipulated provisions on the compulsory application of local and imported raw sugar to meet a national standard (SNI-Standard National Indonesia No. 01-3140.1-2001), with implementation starting no later than May 5, 2003. The standard is aimed to protect consumers from consuming raw sugar, which is prohibited for direct consumption. This new policy is supposed to promote business opportunities for sugar refineries, as well as encourage local sugar mills to increase production.

At the ASEAN Economic Ministerial Meeting in Laos, April 2-4, 2003, Indonesia proposed to liberalize sugar (by imposing a zero duty) for imports from ASEAN countries. It is not yet clear when and how this proposal will be materialized. The Indonesian Cane Farmers Association (APTRI-Asosiasi Petani Tebu Rakyat Indonesia) doubt that Indonesia will be able to implement the proposal, as it feels that Indonesia is not ready for free trade practices yet and will potentially hurt local industries. In contrast, during the WTO meeting on agriculture in Geneva, March 24-28, 2003, Indonesia strongly recommended a criteria formulation for Strategic Products (SP), which would allow rice, corn, soybean, and sugar to be excluded from liberalization.

SECTION II: STATISTICAL INFORMATION AND TABLES

Cane Sugar Production by Month

Monthly Cane Sugar Production (in '000s Metric Tons)					
Month	Production	Month	Production	Month	Production
2000		2001		2002	
Jan	0.1	Jan	2.9	Jan	6.5
Feb	7.4	Feb	46.9	Feb	32.9
Mar	18.1	Mar	25.0	Mar	20.5
Apr	58.3	Apr	31.5	Apr	64.0
May	172.2	May	188.1	May	199.1
Jun	326.5	Jun	351.6	Jun	
Jul	332.9	Jul	345.8	Jul	
Aug	528.4	Aug	503.8	Aug	
Sep	279.8	Sep	275.5	Sep	
Oct	143.9	Oct	139.4	Oct	
Nov	25.7	Nov	27.2	Nov	
Dec	3.0	Dec	2.0	Dec	
Total	1,896.3	Total	1,939.7	Total	323.0

Source: Economic Indicator, Central Bureau of Statistic, Indonesia, (September 2002).

Retail Sugar Prices

The following are average monthly retail prices table for local sugar and imported sugar at Jakarta traditional market.

Average Monthly Local Sugar Retail Prices 1/ (Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2001	3700	3785	3880	3955	4053	4203	4205	3913	3638	3633	3853	3833
2002	3953	3988	3953	3760	3580	3503	3500	3500	3460	3760	3953	4023
2003	4255	4318	4325	4800								
% Change	8	8	9	28	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

Source: Center for Market Information (PIP), the Ministry of Industry and Trade

Note: April 2003 price is average price for three weeks

1) Prices apply to Lokal Sugar SHS I in traditional Jakarta Market. Pct refers to year-to-year percent change.

Average Monthly Imported Sugar Retail Prices 1/
(Rupiah per Kilogram)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2001	3688	3743	3840	3938	4046	4153	4178	3900	3625	3573	3833	3828
2002	3978	3990	3963	3753	3543	3500	3475	3463	3445	3755	3950	4018
2003	4250	4300	4330	4698								
% Change	7	8	9	25	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

Source: Center for Market Information (PIP), the Ministry of Industry and Trade

Note: April 2003 price is average price for three weeks

1) Prices apply to Imported Sugar in traditional Jakarta Market. Pct refers to year-to-year percent change.

Exchange Rate

Exchange Rate (Rp./1US\$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2000	7414	7517	7598	7988	8728	8742	9055	8370	8891	9483	9524	9385
2001	9488	9914	10460	12117	11423	11436	9744	9045	9696	10358	10476	10450
2002	10383	10222	9779	9441	9823	8741	9171	8938	9057	9233	8976	8940
2003	8876	8905	8908	8897								

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.

Note: - April 2003 exchange rate is quoted for Apr. 3, 2003.

- BPS data available up to Sep. 2002.

May 6, 2003

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